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## Russian Federation

### Grain and Feed

## Grain Intervention (Procurement) Prices for 2007 2007

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**Report Highlights:**

The Ministry of Agriculture finalized the government intervention (procurement) prices for food quality wheat and rye. The price is higher than last year, but lower than the real market price for grain. Specialists believe that the early announcement of support prices will help farmers determine their business plans for MY 2006. Government support, however, is dependent on the amount of money allocated in the federal budget for this purpose. If grain prices plummet, the real effects of government support will be dependent on this funding rather than the support price level.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Moscow [RS1]  
[RS]

**Table of Contents**

<b>Executive Summary .....</b>	<b>3</b>
<b>Ministry of Agriculture Announced Grain Intervention Prices .....</b>	<b>3</b>
<b>Grain Market Prices in 2006-2007 .....</b>	<b>3</b>
Chart 1. Average Price of Wheat, Class 3, by Federal Districts.....	4
Chart 2. Average Price of Wheat, Class 4, by Federal Districts.....	4
Chart 2. Average Price of Wheat, Class 4, by Federal Districts.....	5
<b>Comments .....</b>	<b>5</b>

## Executive Summary

The Ministry of Agriculture finalized the government intervention (procurement) prices for food quality wheat and rye<sup>1</sup>. The prices are higher than last year, but lower than the real market price for grain. Specialists believe that the early announcement of support prices will help farmers determine their business plans for MY 2006. Government support, however, is dependent on the amount of money allocated in the federal budget for this purpose. If grain prices plummet, the real effects of government support will be dependent on this funding rather than the level of support price.

## Ministry of Agriculture Announced Grain Intervention Prices

In April 2007, in accordance with Federal Law #264-FZ, dated December 29, 2006, "On Development of Agriculture," the Russian Ministry of Agriculture calculated the minimum price of grain for government procurement in 2007. The prices consider the condition of winter crops, structure of sown area, and analyses of foreign and domestic grain markets. The prices are set as follows<sup>2 3</sup>:

1. For soft, food quality wheat, class 3
  - in the Central region – 3,250 rubles (\$125) per metric ton
  - in the Southern region – 3,000 rubles (\$115) per metric ton
  - in the Eastern region – 3,500 rubles (\$135) per metric ton
2. For the soft, food quality wheat, class 4
  - in the Central region – 2,900 rubles (\$112) per metric ton
  - in the Southern region – 2,700 rubles (\$104) per metric ton
  - in the Eastern region – 3,100 rubles (\$119) per metric ton
3. For rye, food quality, group "A"
  - all regions – 2,600 rubles (\$100) per metric ton.

The proposed prices were sent to the Federal Service on Tariffs for approval.

## Grain Market Prices in 2006-2007

Last year, procurement prices were announced in late July and set at 3,100 and 3,300 rubles (\$115 - \$122) per metric ton for wheat (class 3). The lower level was set for European Russia and the higher amount was used for the Urals and Siberia. Wheat (class 4) was priced at 2,450 and 2,600 rubles (\$91 and \$96) per metric ton, respectively<sup>4</sup>. However, the actual

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<sup>1</sup> The price intervention mechanism works as follows: the government can purchase grain from producers at a predetermined procurement price using funds allotted from the federal budget for these purposes. Farmers usually start selling grain if the market price is close to or below the procurement price or if the delivery for exports or to other regions of Russia is difficult (i.e. from Siberia). On the other hand, when prices increase sharply, the government can start selling grain from the intervention stocks. The federal budget money for intervention is not significant, and interventions have a greater moral impact rather than real influence on the supply and demand of grain in the market.

<sup>2</sup> The document does not specify what territories of the Russian Federation are included in the Central, Southern, and Eastern regions. The Central region most likely includes the Central and North Western Federal Districts. The Southern region encompasses the South and part of the Volga Valley Federal districts, while the Eastern group probably contains part of the Volga Valley Federal District and the Ural and Siberia Federal districts.

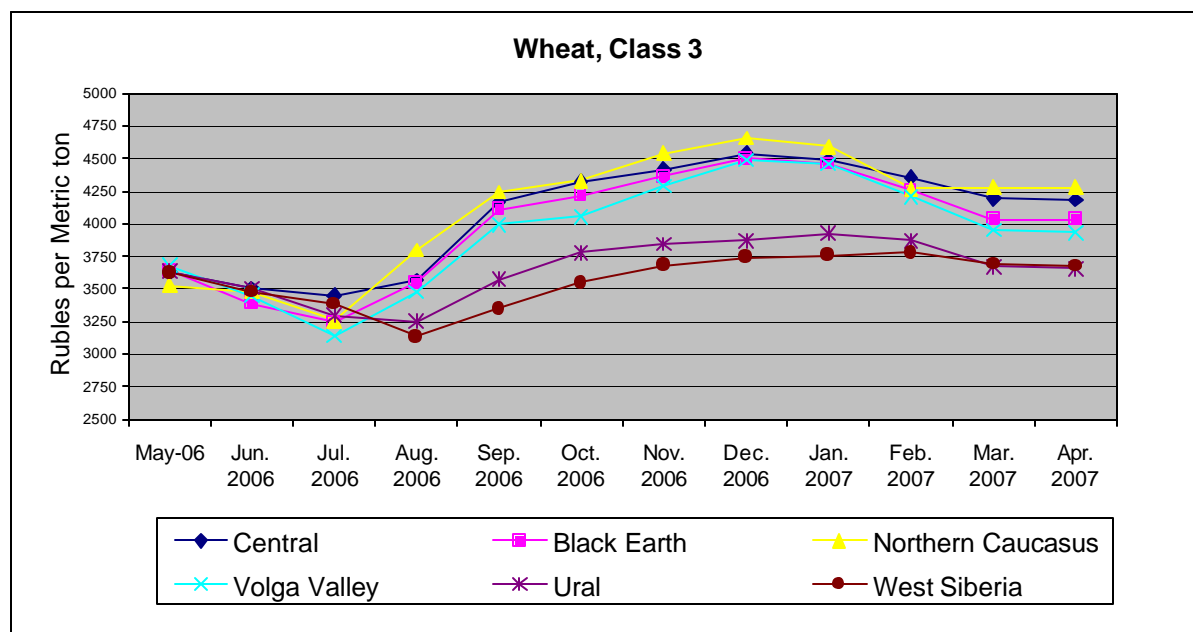
<sup>3</sup> In July 2006, the \$US exchange rate was 26.95 rubles, and in April 2007, this rate decreased to 25.95 rubles.

<sup>4</sup> GAIN RS 6053 *Grain Procurement Intervention*

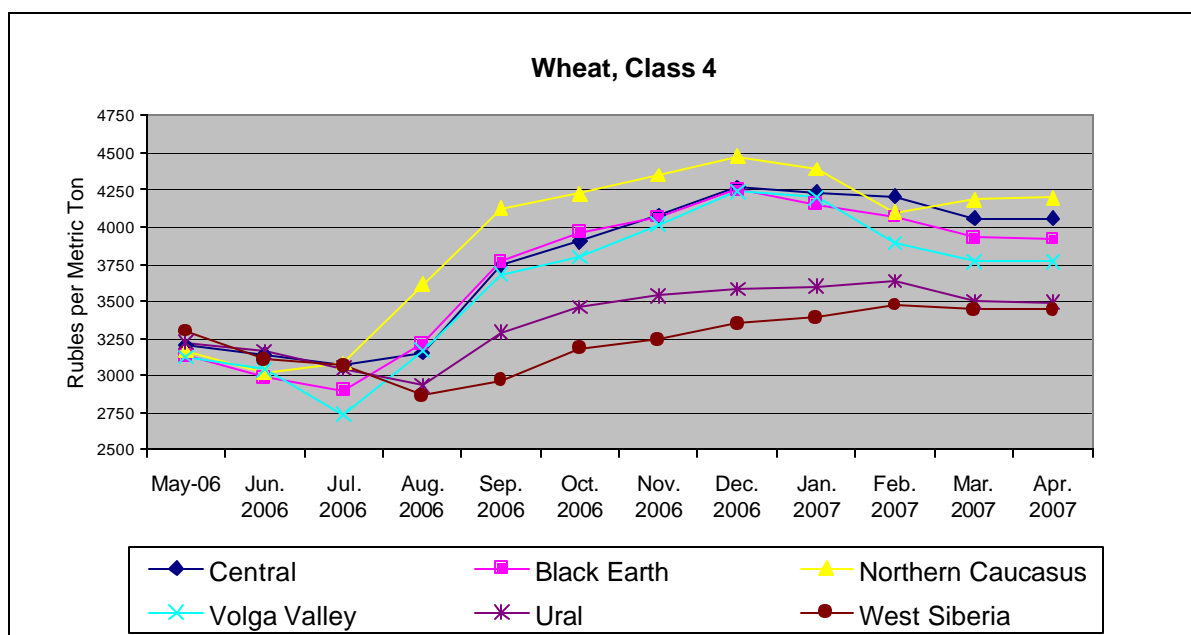
government purchase of grain was small because prices started to increase in the fall of 2006. Due to a decline in the \$USD/RUR exchange rate, the new support price of wheat (class 3) in US dollars has not changed significantly, while support price of wheat (class 4) has increased both in rubles and in dollars. Wheat (class 4) can be used both in food consumption and feed consumption, and prices are volatile. The market price of class 4 wheat increased significantly over the past year.

The charts below show that the average price (sell/purchase) price of wheat and rye in May 2006 – April 2007 was lower than the procurement price announced for MY 2006, and that the new price is also below the actual market level.

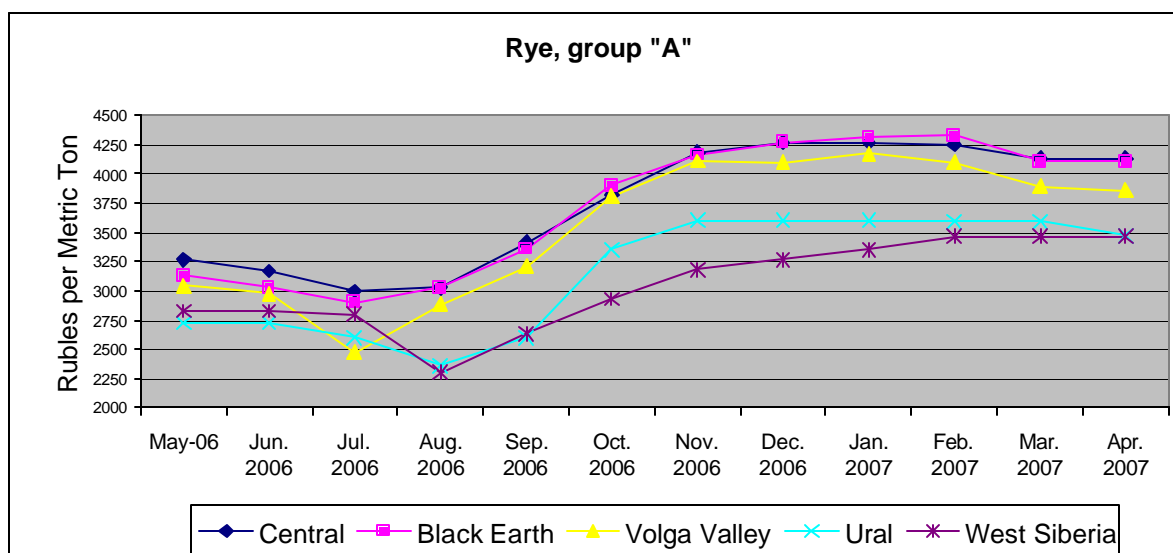
**Chart 1. Average Price of Wheat, Class 3, by Federal Districts**



**Chart 2. Average Price of Wheat, Class 4, by Federal Districts**



**Chart 2. Average Price of Wheat, Class 4, by Federal Districts**



### Comments

Experts generally applaud the division of the procurement prices into three groups, as this more accurately reflects the differences in the regional grain markets. The Central region is oriented for domestic consumption, while the Eastern regions of the Urals and Siberia are remote and grain transportation is difficult. The stated procurement prices provide guidelines for farmers' business plans in 2007.

Given the potentially large size of the grain crop this year, and the possible inability of the market to absorb the additional grain, prices may plummet. If this is the case, then the proposed level of support will aid farmers. However, the prices proposed by the Ministry of Agriculture will become official procurement prices only after the Federal Service for Tariffs approves them. The actual level of support will depend on the funds allocated from the

federal budget. While the prices indicate the government's intention, they do not yet provide a guaranteed safety cushion for Russian grain farmers.